

The Problem of Development in Contemporary Cuba

Pedro Monreal

Introduction

The Cuban economy endured its most profound crisis in peace time history during the first half of the 1990s, precipitated by the demise of “real existing socialism” in Eastern Europe and the Soviet Union. Gross Domestic product (GDP) fell by approximately one third in just four years (1990-1993), and foreign trade contracted by almost 75 per cent. At some point, the economy was practically in free fall.

Government policies to deal with the crisis were markedly different from the usual pattern of economic adjustment that other countries have adopted. Essential social services, such as education and health, continued to be provided free to all citizens even in the worst moments of the crisis. Subsidized food — although in reduced amounts — guaranteed a minimum level of nutrition, while other important social programs were designed to support specific social groups.

Coping with the crisis by restoring growth thus became a matter of survival. Several reforms and were implemented by the Cuban government to achieve that goal, under severe time constraints and intense political pressure, including the tightening of the US blockade against Cuba.

The biggest challenge was that the adaptation of the Cuban economy had to take place within the context of a new reality. With the vanishing of the “socialist camp” there were no longer preferential arrangements with other countries. In that sense, the reinsertion of Cuba into the world economy became a key component of survival. Although plans for long term development were still part of

the general matrix of economic policy, priority was given to short term *ad hoc* programs aimed at inducing rapid recovery.

The political agenda in the country was concentrated throughout most of the 1990s on the objective of survival, a relatively narrow agenda, though a crucial one for the country's future, and this left scant room for reflection concerning transformations taking place along longer time horizons.

However, by 1995 the worst of the crisis was over and the economy began a process of recovery. Thus, the “survival strategy” that prevailed during the first half of the nineties was subsequently replaced by a “strategy for upgrading” (*estrategia de perfeccionamiento*) which became more prevalent as actors gained confidence about the durability of the economic recovery process that began in 1995. The latter part of the decade did not see an end to the logic of survival, but instead superimposed upon it a series of notions and programs that reintroduced *the question of development* into academic and policy debates.

The fissures of the “adaptation” of the 1990s

The last decade of the 20th century has been a scenario of an inconclusive transformation of Cuba's economic structure. The model of development adopted during the first thirty years of the Revolution (1959-1988), which was fundamentally focused on a national agro-industrial complex with guaranteed financing, technology, and markets from the socialist camp, has gradually been transferred — at least partially — into a new structure in the

1990s. This new configuration is outwardly oriented toward foreign markets — as in the cases of tourism and mining —, and towards other spheres whose growth has been fueled by the expansion of a domestic market in foreign exchange. The latter has been promoted, in considerable measure, by tourism and by net current external transfers, especially family remittances, and other sources of “hard” currency income associated with “spillovers” derived from tourism and workforce incentives (in “hard” currency) for a segment of the country's population.

For an open economy such as Cuba's, the transformation of its economic structure towards development occurs within a framework of restrictions. First, the economic structure should guarantee a role for the insertion of the country in the international economy. The opportunities for autarkic whims are practically nonexistent and its consequences would be disastrous. For Cuba, there are no viable options outside of those “outward-oriented strategies”, an always-problematic alternative, although not impossible, while the country is submitted to the economic blockade¹ of the United States. The second restriction is that, for the practical purposes of the design of development strategies, “the country” cannot be regarded as the most adequate unit of analysis. The advances gained by technological and organizational learning are, currently, derived more from one's progress in the context of global chains of production than from one's self-centered promotion of “national industries”.

The third restriction refers to the need for the restructuring of the economy to occur as a part of a broader process of social change that transcends the partial reform of the economy's traditional, centrally planned apparatus. The probabilities for a successful reorientation of the economic structure are not very high in the absence of relatively significant transformations of fundamental economic institutions and property rights.² Another very important restriction is that the identification,

selection and promotion of the sectors and activities that will have to constitute the new economic structure should be understood as aspects of a complex process that will be determined, to a great extent, by social and political considerations. No transformation of the economic structure will be sustainable nor desirable, in the long run, if it is done at the expense of the well being and the expectations of the majority of the population.

The fact is that from the beginning of the 1990s a change occurred — in a number of significant specific aspects — in the pattern of development that Cuba had been following from the middle of the 1970s. The more visible causes of change, although not the only ones, were located basically in external factors. In this respect, what happened in Cuba is registered in quite well defined historical patterns. It is possible to appreciate a central factor of the transformations of development strategies in the modifications of the external conditions.³

The central axis of Cuba's development strategy had been defined in 1975 as “the industrialization of the country”.⁴ While fifteen years later, this process has not fully managed to fulfill the delineated tasks, it has succeeded in achieving a relatively higher share of industrial output within total supply, diversified industrial production, and expanded its support infrastructure; in addition it has extended and deepened the business network, created a capacity for administration and for management, and fostered the expansion of a relatively skilled industrial work force. By the late 1980s whole industrial sectors had been vastly expanded and new manufacturing branches had been established, fundamentally with the goal of import substitution. New productive capacities were created in a rather wide spectrum of industries such as metal processing, industrial machinery, assembly of transportation equipment, naval construction, food processing, pharmaceutical, medical equipment, fertilizers, agro-machinery, construction supply materials, electronics and textile plants. Deficiencies

and limitations of the process have been stated widely by many authors; what I wish to point out here is that the existing situation at the beginning of the 1990s was not the culmination of this development strategy, but rather a starting point in the search for possible and existing alternatives.

The changes introduced into the pattern of development of Cuba during the 1990s have significantly marked the composition of the balance of payments⁵ and other areas of the economy — for example, the incentives structure and social mobility. But, actually, and despite all the changes, the old agro-industrial structure still predominates in terms of total supply and employment, although a good part is not viable under current conditions, nor compatible — under its present form — with the needs for the future development of Cuba. At the end the 1990s, it was evident that the transformation was inconclusive. The implications of the transformations of the 1990s for the future development of the country can be valued more clearly if they are evaluated, even superficially by two of its central dimensions: international reinsertion, on the one hand, and the patterns and the strategy of development, on the other.

International Reinsertion: From Sugar Fields to Tourist's Playgrounds.

Evaluated retrospectively, and with the advantage of hindsight, the Cuban economy undertook international reinsertion based on three pillars in the 1990s: the intensive utilization of natural resources, the access to external rents (family remittances), and the limited revenue derived from foreign loans and investment. This pattern of development is different from the previous (1976-1989) period with regard to the mode of insertion into capitalist world markets, now in competitive terms, versus the previous access — guaranteed and in compensated terms — to the markets of the Council for Mutual Economic Assistance (COMECON), of "real socialism". For this reason, the specific ties connecting the country to the

international economy have changed (tourism partially replacing sugar; foreign investment and family remittances unsuccessfully attempting to replace the compensating transfers coming from COMECON). However, *the development pattern of the 1990s maintains an impressive continuity with the previous one*, to the extent that it has continued to be, in essence, a process of industrialization by means of import substitution.

Since the second half of the 1970s until the end of the 1980s, the explicit emphasis of the development strategy was industrialization — specifically directed to replace imports.⁶ The increase in exportable resources as a result of that industrialization was also a declared objective; but, as the facts demonstrated, it was an objective very secondary compared to import substitution. The latter constituted the key part, but not the only one, of the pattern of development in effect during that period. Another pattern was the export development of primary products or products with a minimum degree of processing (sugar, minerals and citrus fruits); but this component was subordinated to the first one inasmuch as it was regarded as a source of resources to finance industrial investment, and a starting point for new industrial products — for example, derivatives of the sugarcane or steel outputs based on the mineral reserves. In addition to substitutive industrialization and the promotion of primary product exports or exports with a low degree of processing, there existed a third component of that development pattern: the promotion of industrial exports that performed a very secondary role and yielded limited results. In the 5-year period of 1976-1980 115 new exportable items were incorporated, but these corresponded to a practically insignificant number in the total value of the exports of the country.⁷

Consequently, the pattern of development that enters in crisis at the beginning of the 1990s is, essentially, an industrialization model by means of import substitution.⁸ And, it is precisely this central feature that becomes unsustainable, given the

impossibility of continuing to count on the external mechanisms of compensation that permitted their expansion, and even their operation. The second feature — the export of primary products — was not capable of serving as a source of accumulation for financing industrialization in the absence of the preferential prices that were previously paid by socialist countries. In fact, exports of primary products also entered in crisis upon not being able to ensure its own expanded reproduction as a consequence of the commercial and financial dislocations resulting from the bankruptcy of European “real socialism”. The third component industrial exports were marginal to the essential operation of the pattern of development.

Seen retrospectively, what is noteworthy at the beginning of the 1990s is that the new pattern — that was arising from the collapse of the previous one — essentially resulted in the continuity of the earlier model. *In the 1990s industrialization by way of import substitution was not renounced as the central component of a vision in the long run development of the country.* What indeed was modified was the means of connection to the international environment by which that type of industrialization should be led in the future.

In the midst of the crisis and the severe balance of payments restrictions in the 1990s, industrialization by means of import substitution could not be carried out through *new* industrial investment. The continuation of that strategy attempted to preserve, as much as possible, the previously created industrial structure, while introducing the necessary adaptations and partially modernizing it, awaiting a return of more propitious conditions that would make it possible to reinstate new investments for those targeted industries. The greater priority that some exporting sectors received in the 1990s with regard to investment — for example, tourism, nickel and pharmaceutical industry — was not conceived as a substantial modification of import substitution industrialization, but instead as the creation of improved conditions

for the strategy's continuation. This resulted in relatively important adjustments in the following two other components of Cuba's pattern of development.

First, exports should be increased. This was understood to be possible through two means: first, trying to augment new exports based on the intensive utilization of natural resources; and second, trying to give a “leap forward” to a few industrial exports, especially in high-technology, such as pharmaceutical products based on biotechnology and medical equipment. Second, along with the export of primary commodities or those with low level of processing — i.e. related to an intensive utilization of natural resources, the impetuous development of tourism added a relatively new component in the Cuban economy with annual growth rates close to 20%. Although it often is presented as the “industry without chimneys” or the basis of a supposed “new service economy” for the country, tourism is also, to a great extent, based on the intensive use of natural resources.⁹

This does not mean, in any way, that it is a sector that should not be developed, in fact, quite the contrary. Cuba has unquestionable competitive advantages in this area and in addition, as will be exposed further on, tourism currently constitutes the only sector of the Cuban economy with the ability to act as the “leading sector” for development. However, its take-off in the 1990s has represented an additional expansion of natural resource-based exports, rather than the emergence of a new ingredient for the country's development pattern that could be augmented with other assets, such as skilled labor, science or technology. It is necessary to consider as well that in the long run economic structure that enables a country to travel upwards through trajectories of technological learning is of great importance. In this process, the sectoral composition of the economy is not a “neutral” factor. Furthermore, the bet on industrial exports essentially relied on the pharmaceutical production

derived from biotechnology and, to a lesser extent, medical equipment. In this regard, industrial exports were not promoted in an extensive spectrum of activities, but in a very selective way. Nevertheless, the existing expectations at the beginning of the 1990s in this area were reduced considerably in recent years.

The industrial structure which was created before the crisis was functioning in the first years of the decade with very low levels of utilization and, in fact, it remained subject to a process of decapitalization, especially acute in some branches.¹⁰ It had not been created in order to compete internationally (thus it could not, in general, count on foreign markets as a possible distribution outlet) and, in addition, it was highly dependent on imports. Given severe balance of payments restrictions it was unable to produce for domestic markets as well.¹¹ However, part of that resulting structure was favored by the expansion of a practice that has grown in importance and has been called «exports within the borders». These consist of Cuban domestic markets that function in foreign currency (basically the US dollar and also a special type of domestic currency — the Cuban convertible peso — which functions as a proxy of the US dollar), whose demand originates from two fundamental sources: a growing number of national, foreign and mixed companies that basically operate in hard currency (i.e. tourist activities), and the demand generated by a part of the population that owns dollars, to a great extent thanks to the family remittances and to the existence of other sources of income associated, as previously explained, in some cases to the “spillovers” derived from tourism and in others from the establishment of mechanisms of foreign currency-nominated bonuses delivered to a segment of the work force.

The fact that they are referred to as “exports within the borders” reveals the importance of the availability of foreign exchange for the internal operation of the Cuban economy. The lack of “hard currency”, not the paucity of other

productive assets, is generally the strangulation point of the productive processes. By creating domestic markets operating in “hard currency”, a growing number of enterprises now have direct access to such a critical resource. Hypothetically, domestic markets in foreign exchange could act as a “springboard” for the generation of real exports, but that possibility has yet to be materialized in the recent experience of Cuban industry.

Based on domestic market demand for foreign exchange, new productive links have been created and already existing channels have been reconfigured. “Exports within the borders” have favored the formation of business networks, in some cases of a very dense character, that have permitted the reactivation of a part — still insufficient — of the import substitution industry.¹²

At least two lessons are derived from the experience of “exports within the borders” during the 1990s. First, relatively inefficient industries have managed to be reactivated and even be partially modernized, especially because their sales take place in markets in which the levels of efficiency are less than would be required by global markets.¹³ Under these conditions, the development of strong incentives for export should not be expected to emerge. Hence, the potential for this mechanism to act as a “springboard” for exports will be met with major difficulties. Secondly, “exports within the borders” have acted as an important mechanism of social and political stability in the 1990s, as they have allowed for higher levels of employment — as a result of a smaller relative efficiency — than those which would be possible under an alternative predominant pattern based on “real” exports.

Having argued that the adjustment experienced by Cuba's development pattern in the 1990s was concentrated on its international integration and not the modification of its essential structure — that is, in the degree of the quality of its industrialization process by means of import substitution —, it is advisable to summarize some of the most

outstanding characteristics of that process:

1. The insertion of Cuba in the world economy during the 1990s consisted, basically, of the expansion of exports based on the intensive utilization of natural resources, particularly through the promotion of tourism services.

2. The performance of different activities within this export group has been very heterogeneous. While tourism revenue grew spectacularly, the exports of sugar were reduced in a no-less spectacular fashion. The losses associated with the contraction of the sugar sector substantially lessened the positive effects of the growing contribution of foreign exchange earnings from tourism.

3. In terms of international integration, tourism dethroned sugar, but its rise has not modified the fact that the country continues to be, as it has for centuries, basically an exporter of natural resources. What is innovative about tourism is that it has incorporated services as part of the list of exports derived from these resources. The share of Cuban exports of activities based on other types of assets is minimal — for example, transformative industries, skilled labor, or the utilization of science and engineering.

4. The type of international integration arrived at in the 1990s demonstrates that there is an astonishingly low level of utilization of the country's principal economic assets: a relatively skilled work force and, especially, with high potential for learning.

5. Under limited possibilities for financing of the deficits in the balance of payments, the reduction of the total exporting capacity of the country led to an "import substitution" pattern that was economically recessive; that is, imports lost their relative weight as a share of gross national product due to an adjustment through "compression" of imports.¹⁴ This situation was particularly critical during the first half of the decade, and although in later years it has been relieved, it is still far from being resolved. In other words: the level of the

country's exports in the 1990s was not capable of ensuring the operation of an industrial structure created to replace imports.

6. The partial reorientation of this structure toward what some authors have described as a "closed cycle scheme" has permitted a somewhat limited type of reindustrialization through "exports within the borders".¹⁵ Some domestic demand in hard currency, associated to a great extent with mechanisms of international integration — tourism, foreign investment, access to credit, and family remittances — has functioned as a source for reactivating industrial supply by generating investment that has modernized and restructured national industry segments, directing them toward domestic markets.

7. Tourism has played an important role in the country's process of limited reindustrialization. Not only has this sector provided foreign exchange and jobs, but it is the only segment of the Cuban economy that has met the three simultaneous conditions rendering it to be the current "leading sector" for development: 1) the existence of potential and still insufficiently unmet demand; 2) a relatively large scale of activity, and intersectoral ties that permit the dissemination of its growth to the rest of the economy; and 3) an "exogenous" growth rate; that is, relatively independent of the general average growth rate of the domestic economy. As a "leading sector" in the economy, its contribution has been much more significant than solely its generation of export earnings; in fact, this alternate role is what is most important in the long-run. Tourism offers potential links — particularly with respect to industry and other services of greater technological complexity including air transport, telecommunications, information technology and engineering projects — that would facilitate advances in the structure of the economy and the work force towards international trajectories of technological learning. In that way, tourism — a service of little technological complexity in some of its

predominant activities (for example, lodging and gastronomy), and based on the intensive use of natural resources—could act as a gateway for the development of industrial activities and of more technologically advanced services, both with much greater income earning potential.

8. Foreign investment was concentrated during the 1990s in activities related to natural resources—tourism, mining, oil, agriculture, the development of infrastructure (for example, telecommunications), and certain industrial outputs that function as “exports within the borders” (light manufacturing and food industries).¹⁷ The direct impact of foreign investment with respect to the utilization of established industrial plants and skilled work force has been insignificant. The problem is not only based on relatively stringent domestic regulations with regard to foreign investment, but more importantly the existence of more general economic and political conditions—the existence of the U.S. economic blockade against Cuba, the persistence of imbalances in the balance of payments, the lack of business flexibility, the limited possibilities for the functioning of effective work force incentives, and the absence of sufficient mechanisms for economic innovation, among others—that limit the country's attractiveness to foreign investment, particularly in the manufacturing sector.¹⁸

The “Combined reindustrialization” of the 1990s and the limits of a development strategy

In conceptual terms, there exists an important difference between *development strategy* and *pattern of development*, to the effect that the first always refers to an ideal representation at the policymaker level, while the second consists of a given sequence of events and economic and social outcomes. The distinction is relevant, to the extent that most of the controversy concerning strategies revolves around what governments can actually do, so that the study of the past (the patterns of

development) reveals their capabilities or lack thereof. That knowledge, consequently, can be utilized as an initial condition for the design of new strategies.¹⁹

Having defined these points, the summary that I will present below does not refer, strictly speaking, to a review of Cuba's development strategy in the 1990s, as if one had existed; nor does it concern an examination of the archetypes that could have existed in the mind of policymakers, but it does allude to the pattern of development observed during that period. The analysis of the observable characteristics in the decade's pattern serve as a starting point in order to advance some provisional considerations with regard to the development strategy during that period:

1. The pattern of development observed in Cuba during the 1990s—sufficiently well defined by the end of the decade—does not correspond with an explicit new strategy of development that had been formulated at the beginning of the decade.²⁰

2. From the beginning of the 1990s at the level of the state apparatus an economic strategy was observed in Cuba in the sense of the existence of a series of principles, assumptions and prognoses that had as a purpose “the essential objectives of confronting and surpassing the effects of the crisis, distributing as equitably as possible its impact on the society, while there were created conditions for the reinstitution of Cuba into the world economy”²¹ but that resistance strategy—without a doubt very important—should not be confused with a *new* development strategy; i.e. with an essentially different ideal archetype contrary to the existing one concerning the manner in which to develop the country.

3. What is at times described as a development strategy in Cuba possesses coherence only retrospectively. What at the end of the 1990s could be regarded as such a strategy had resulted from the measures gradually adopted in the early 1990s as a part of a strategy to resist the dire consequences for the Cuban economy of the

collapse of the Soviet Union and the persistence of the U.S. blockade.

4. More than a new strategy of development, the adjustments introduced due to the crisis resulted in *a different phase* than that in predominance since the middle of the 1970s. If the phase that extended during the period 1975-1990 could be characterized as “industrialization by means of import substitution under conditions of high external subsidies” (in order to abbreviate: subsidized import substitution), the 1990s opened a new stage of what, in essence, was the same strategy, which can be called “reindustrialization by means of import substitution with superimposed export orientation” (in order to abbreviate: *combined reindustrialization*).

5. In the new phase, the assumption that industrialization by means of import substitution should be the principal component of the development strategy was maintained. What was recently modified was the perception that, under the new conditions, the following were indispensable: a) the reconfiguration the industrial structure to take advantage of the emergence of new domestic markets in foreign exchange; b) the promotion of a few, new specific exports with the ability to rapidly become sources of accumulation and articulating links for productive chains that permit partial reindustrialization; and c) the inclusion of foreign investment as a route to access financing, technology and markets. What is new has been, then, a relatively greater emphasis on the creation of new exports in the short-term. However, beyond this general invocation on the need for a “will to export”, a change in the paradigm of import substitution based industrialization has yet to be identified.

6. Despite its important limitations, the new phase of combined reindustrialization has the virtues of almost every policy designed and implemented under pressure, basically its practical character and high degree of flexibility. For that reason, although it does not manage to displace the

idea of the substitutive industrialization from the center of the strategy — which constitutes an emphasis not much adjusted to the current circumstances — a relatively large emphasis on a certain reorientation of the economy towards exports is given, that, without a doubt could be the basis from which to advance a different industrialization paradigm. The new phase of the development strategy has a problem of emphasis, but a great potential given its “flexible” character.

7. The two most important limitations of the new phase of the development strategy are the following ones:

- The level of new sources of foreign exchange and the potential for productive links that the sectoral leader (tourism) is capable of generating is considerably less than that required for reconfiguring and reactivating the existing industrial basis, which had been created in order to replace imports. A considerable part of latent supply corresponds to an industrial model that is not viable under current conditions. Thus, a general reindustrialization oriented towards import substitution objectives is not plausible for Cuba. The extension of import substitution to a development strategy would lead to a dead-end street.
- The export orientation of the 1990s is sustained by natural resource-supported activities, but these do not have the potential for significant expansion, with the very important exception of tourism, precisely because the natural resources that sustain them have, in some cases, insurmountable material limits — mineral or fishing reserves — and, in others, current limitations imposed by the market — the restricted supply that should be the basis for an exclusive product, such as *habanos* or relatively stagnant demand as is the case of sugar. It is certain that a part of the agricultural sector could be reoriented towards export, but even doing so, would represent a limited export option. Furthermore, the experience of “large stake

bets" on a few industrial activities, not only seems to have a not too convincing record, but also does not maximize the widely available productive plants and industrial workforce. The notions that export orientation should be aimed at sectors with clear "comparative advantages" (natural resources) and toward a few industrial activities are not a plausible assumption for Cuba's development strategy. The almost exclusive emphasis on an exporting program based on natural "comparative advantages" or in a "great leap" of some branch of industry could also lead to a dead-end street.

At the dawn of the new century, as was the case at the beginning of the 1990s, an opportunity to rethink the country's development strategy is once again available. My view is that import substitution should be replaced — although in no case excluded — as the center or nucleus of the strategy by one that emphasizes exporting.

Rethinking the debate on the development of Cuba

In the context of a globalized economy, should Cuba rely on a development strategy based on an international specialization built on the intensive use of natural resources, or is the more appropriate strategy one of intensive utilization of a skilled workforce with high learning capacity directed toward export oriented reindustrialization? Which option is the most promising in terms of the country's development? This is in essence the fundamental dilemma currently facing the formulation of Cuba's development policies.

In the nineties, Cuba used (with partial success) the first of the above mentioned means to "adjust" its economy to the new international context. Nevertheless, that type of adjustment does not appear to be the most appropriate mechanism to promote national development in the future.

Cuba's development requires a *reindustrialization with export substitution*, that is, the adoption of a pattern of development in which "technologically

intensive" exports replace those products and services based on the intensive utilization of natural resources, as the dominant part of the country's total exports.

An effective diversification of exports should not be understood as indiscriminate aggregation of new exportable categories, quite the reverse, it should be understood as the selective expansion (absolute and relative) of exports based on technological factors and on the intensive utilization of a relatively skilled work force. That is, these exports should be associated with the concentrated application of knowledge, in the form of technical and organizational methods applied to production processes, as well as knowledge embedded in efficient equipment. There would be the types of activities related to most of the so-called "high tech" industries (i.e. pharmaceuticals or software development) and also related to the "upgrading" of processes and products in traditional sectors (i.e. from raw sugar to special types of alcohol). The key point should be the extent to which those new technologically intensive exports succeed in absorbing a growing part of total exports, until becoming the majority. In other words, some exports should be substituted for others in the country's exporting structure.

Cuba has a relatively skilled industrial work force with demonstrated high potential for learning. Although in many sectors of the Cuban economy the technical and organizational skills are not of world class standards, the combination of a high level of general education with basic, but widespread, technical skills, and a tradition of technical inventiveness has established a general profile of very fast assimilation of new techniques by the Cuban labor force, as recognized by foreign investors. In addition, the existence of a relatively diversified industrial base (metal processing, industrial machinery, assembly of transportation equipment, naval construction, food processing, pharmaceutical, medical equipment, fertilizers, agromachinery, materials for construction, electronics,

and textile plants) and business networks are in economic terms, more important assets for Cuba than the natural resources of the country.

For an open economy such as Cuba's, a transformation of its economic structure focused toward development is a process that occurs within a framework of unavoidable restrictions, particularly the inherited structure and the existence of the US embargo. Furthermore, realistic assumptions must be utilized when considering the potential impact of the intense international competition on the world market. Additionally, assessments on the potential impact of the lifting of the US embargo should be factored in any plan of prospective structural transformation of the Cuban economy.

There is no space here to elaborate a more detailed exposition of this alternative, but it should be clear that a reindustrialization strategy through export substitution starts from the assumption that structural limitations are not to be accepted, but to overcome. The transformations that this would require necessitate economic reform of a type we have elsewhere called "fundamental"²² but it is also necessary to make use of the opportunities that could be offered by foreign investment and global production networks to achieve technological learning.

In any case, for a country like Cuba, innovation must be a critical factor for the prospects of "upgraded" structural transformation. That means that innovation must become a central function of the economic system, something that has not been achieved yet in Cuba, in spite of accumulated or current advances in the field of innovation in the country.

Notwithstanding the existence of policies and structures which have been specifically designed to foster innovation, what really seems relevant is the impossibility to clearly identify "the agent" of innovation in the context of the Cuban economy, understood it not simply as an "specialized actor" (i.e. certain institutions) but in the sense that innovation could operate in a dynamic and effective

pattern across the most common and disseminated type of economic actor: the enterprise.

When considered as an economic function, innovation amount to a stable framework that is conducive to improved results based on the application of knowledge. This is not precisely the operative standard of Cuban enterprises. Therefore, there is an urgent need in Cuba to institute innovation as a central and widespread function of the economic system and not only as an "area" or "sub-system" associated to specific policies and institutions.

In addition to export substitution and innovation, the expansion and consolidation of a "solvent" domestic market would be crucial for Cuba's development prospects since a radical transformation in demand would be needed in order to modify the current structure of the economy. In turn, that type of upgraded domestic market would be a function of fundamental reforms (including key economic institutions like markets and property rights) that could positively impact the rates of economic growth.

In summary, the economic transformations that occurred during the 1990s cannot be regarded as the solution to the formidable challenge of substantially modifying the current structure of the economy in order to be able to access development.

Nevertheless, development is possible in Cuba. Under current conditions, the most adequate strategy for Cuba consists of undertaking a process of reindustrialization with export substitution that makes it possible to advance the country along rising trajectories of technological and organizational learning, and this requires that innovation becomes a central function of the economic system and also a change in the composition of domestic demand. In terms of the future, the alternative vision of Cuba as a "tecno-island" (industry) or as an «intelligent island» (innovation) should stand out against the current predominant vision of an "island-paradise"

(tourism). Human capital, knowledge, technical skills and the expansion of domestic demand should take precedence over natural resources as the foundations of national development in this era of globalization.

Notes

1. This is the standard word used in Cuba to characterize the set of U.S. policies to Cuba.
2. See: Julio Carranza, Luis Gutiérrez and Pedro Monreal, *Cuba: la reestructuración de la economía. Una propuesta para el debate*, Nueva Sociedad, Caracas, 1997.
3. Christopher Ellison and Gary Gereffi, "Explaining Strategies and Patterns of Industrial Development", in Gary Gereffi and Donald L. Wyman (editors), *Manufacturing Miracles. Paths of Industrialization in Latin America and East Asia*, Princeton University Press, Princeton, 1990.
4. The Programming Platform approved in the First Congress of the Communist Party of Cuba, carried out in December 1975, expressed that "the central task of development plans for the promotion of the domestic economy for the next 5-year period 1976-1980 will be the industrialization of the country". *Plataforma Programática del Partido Comunista de Cuba. Tesis y Resolución*, Departamento de Orientación Revolucionaria del Comité Central del Partido Comunista de Cuba, La Habana, 1976.
5. In the 1990s gross revenue from tourism displaced the dominant role of sugar as the principal source of foreign exchange of the country, which had prevailed for over two hundred years.
6. "The principal task of industrialization consists of creating the necessary domestic foundations for the systematic development of productive forces, to supply equipment and materials to industry, to agriculture and to livestock; to elevate exportable resources; replace imports, and to produce varied items available for widespread consumption by the population". *Plataforma Programática del Partido Comunista de Cuba. Tesis y Resolución*, p.77.
7. Humberto Pérez, "La Plataforma Programática y el desarrollo económico de Cuba", *Cuba Socialista*, n. 3, La Habana, 1982, p.39.
8. Cuban official statistics recorded vast participation of the industrial sector in domestic production (Global Social Product), which reached 46% in 1988. The majority of the 22 branches classified as a part of the industrial sector were oriented toward production for the domestic market. See: *Anuario Estadístico de Cuba 1988*, Comité Estatal de Estadísticas, La Habana, 1989.
9. The notable expansion of tourism in Cuba during the 1990s has been accompanied by speculation with regard to the supposed advantages that the country gains in moving towards a service sector economy. However, as far as I know, these arguments have not managed to establish a convincing conceptual rationale, nor have they been able to explain adequately what should be done with the existing industrial structure, or how the country's deindustrialization could lead toward development.
10. The period of Cuba's economic decline in the 1990s took place from 1990 to 1993, when GDP fell by approximately 35%. In 1994, growth was practically zero, but at least represented the end of the recession. Since 1995, a recuperation of the economy in relative terms has occurred.
11. There exists an excellent analysis of Cuban industry in the 1990s, which studies its problems and readjustments as a consequence of the crisis in detail. See Hiram Marquetti and Anicia Garcia, "Cuba's Model of Industrial Growth: Current Problems and Perspectives", in Pedro Monreal (editor), *Development Prospects in Cuba. An Agenda in the Making*, Institute of Latin American Studies, University of London, 2002, pp.69-95.
12. Ibid.
13. It is certain that, as standard, the companies that generate "exports within the borders" have been restructured and today are less inefficient than before; but even so, they are usually less efficient than they could be if they had to operate under

conditions of international competitiveness.

14. CEPAL, *La economía cubana. Reformas estructurales y desempeño en los 90*, Fondo de Cultura Económica, México D.F., 1997, pp.147-59.

15. The concept of "closed cycle" or "comprehensive cycle" firm is part of a business typology utilized by some authors in order to explain the transformations of the Cuban economic model in the 1990s. It refers, specifically, to one of the regulatory mechanisms which enable firms generating foreign exchange to utilize directly a part of these resources for the financing of their own production. For this group of firms, a significant change in state-run centralized planning has occurred to the extent to which the initiative has been given to the producer. See: Alfredo González, "La transformación del modelo económico y los retos futuros", paper presented at *Taller Anual de Investigaciones del Instituto Nacional de Investigaciones Económicas (INIE)*, La Habana, febrero de 1999; and from the same author, "Economía y sociedad: los retos del modelo económico", *Cuba: Investigación Económica*, a. 3, n. 3-4, INIE, La Habana, julio-diciembre de 1997.

16. Robert E. Looney, "Manufacturing Contribution

to Pakistan's Economic Expansion: Commodity or Service- Led Growth", *Development Policy Review*, v.12, 1994.

17. Omar Everleny Perez, *El papel de la inversión extranjera directa en los países subdesarrollados. El caso de Cuba* (tesis de doctorado), Centro de Estudios de la Economía Cubana, Universidad de La Habana, La Habana, diciembre de 1998.

18. Claes Brundenius and Pedro Monreal, «The Future of the Cuban Economic Model: The Longer View», en Claes Brundenius y J. Weeks, eds., *Globalization and Third World Socialism: Cuba and Vietnam*, Macmillan Press, Londres, 2000.

19. Ibid.

20. For example, "exports within the borders" were never publicly identified as a significant adaptation mechanism, at the beginning of the decade.

21. José Luis Rodríguez, "Cuba 1990-1995...", p.

20. For example, "exports within the borders" were never publicly identified as a significant adaptation mechanism, at the beginning of the decade.

22. Julio Carranza, Luis Gutiérrez and Pedro Monreal, *Cuba: la reestructuración...*, p.43.

The Problem of Development in Contemporary Cuba

Monreal Pedro

Abstract

La recuperación del crecimiento económico en Cuba durante el período 1994- 2004, luego de haberse experimentado la profunda contracción económica de la primera mitad de los noventa, ha constituido un logro notable pero aún insuficiente para superar estratégicamente la crisis. Quedan todavía, como tareas pendientes, la redefinición de las bases materiales de acumulación de la economía cubana y su reinserción eficiente en la economía internacional.

El argumento central presentado en este trabajo sostiene que la estrategia de desarrollo más adecuada para Cuba en las actuales condiciones exige la adopción de un patrón de acumulación intensiva -basado en un salto de eficiencia-- y un patrón de desarrollo que tenga como componente central un proceso de reindustrialización con sustitución de exportaciones que permita hacer avanzar al país en trayectorias ascendentes de aprendizaje tecnológico y organizativo.

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